A Consultative Session on Establishing an Early Care and Education Private Employer Organization (PEO)

Sponsored by:
The Wisconsin Regional Training Partnership
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Annie E. Casey Foundation
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Table of Contents

Background

Nearly every state in the nation is seeking to establish a system of early care and education that can effectively promote early learning and employs qualified, well-compensated teachers and caregivers. The question is how to achieve this goal. For many years states have focused on professional development initiatives, however, low wages and benefits within the early care and education workforce have limited the effectiveness of these efforts. The erosion of education and experience among the early childhood workforce has serious implications, and in many cases places the quality and continuity of care and the school readiness of young children at risk, especially within low-income communities.

Organizations in Pennsylvania and Wisconsin are seeking to address these inequities in compensation by establishing a new entity—a Professional Employer Organization (PEO). PEOs can offer affordable union benefit plans to non-union employers and self-employed individuals. In the PEO model, child care providers retain control over their own programs, but outsource payroll processing, benefit administration, and related human resource tasks. This new model of organization requires a creative collective bargaining agreement between the PEO and unions that sponsor multi-employer health and welfare funds. The partnership with the PEO enables unions to expand their membership in the absence of collective bargaining agreements with traditional worksite employers.

On December 12th and 13th, 2005, a national group of experts in early care and education, health care, union organizing, workforce development, and other related fields, came together to explore the feasibility of launching a PEO for the early care and education industry. The Annie E. Casey Foundation provided support for this consultative session and sponsored the event at the Foundation offices in Baltimore. This paper summarizes lessons learned at that meeting.

The meeting was planned by Eric Parker, Executive Director of the Wisconsin Regional Training Partnership, Denise Dowell, Director of Child Care Providers Together, Louise Stoney, Co-Founder of the Alliance for Early Childhood Finance, in collaboration with facilitators Fredda Merzon and Sarah LeMoine. A complete list of attendees is appended to this report. Special thanks to Bob Giloth, Program Officer with the Annie E. Casey Foundation, who provided vital leadership and Jane Robinson, Director of Communications at the Wisconsin Registry, who took wonderful notes.

Consultative Session on Establishing an Early Care and Education Private Employer Organization (PEO)

Annie E. Casey Foundation

Baltimore, Maryland | December 12–13, 2005

AGENDA

Monday, December 12

6:00–7:00 PM	Registration and Reception
7:00–9:00 PM	Dinner Welcome *Bob Giloth, Annie E. Casey Foundation* Opening Presentation *Eric Parker, Wisconsin Regional Training Partnership* • What is a PEO and How Can this Structure Help the Early Care and Education (ECE) Industry? • The Role of Unions in an ECE PEO

Tuesday, December 13

8:00–8:30 AM	Continental Breakfast
8:30–9:00 AM	Welcome and Introductions
9:00–9:30 AM	Review of Agenda and Opening Discussion
9:30–10:30 AM	Potential Services Provided by an ECE PEO
10:30–10:45 AM	Break
10:45–12:00 Noon	Administrative/Structural and Governance Issues
12:00–1:00 PM	Lunch
1:00–2:00 PM	Legal and Tax Issues
2:00–2:45 PM	Fiscal Issues • PEO-related services and functions requiring funding • Possible Resources
2:45–3:00 PM	Break
3:00–4:00 PM	Next Steps

The What, How, and Role of PEOs

Eric Parker, Executive Director of the Wisconsin Regional Training Partnership (WRTP), opened the consultative session Monday evening with a brief overview of Professional Employer Organizations (PEOs) and their relationship to unions. WRTP is currently developing a PEO for health care workers and early care and education practitioners in Wisconsin. The goal is to provide affordable union benefit plans to non-union organizations and self-employed individuals in the dependent care sector. Eric stressed that by establishing a PEO it is possible to access Taft-Hartley, union-sponsored benefit plans. These plans spread risk across larger pools, exercise more control over premium rates, and fit the needs of their respective industries. Non-union employers may gain access to these plans through a business agreement with the PEO rather than a traditional collective bargaining agreement with a union.

> A PEO offers non-union employers the opportunity to access affordable, Taft-Hartley employee benefit plans through a business agreement rather than a traditional collective bargaining agreement.

Establishing a PEO makes it possible for staff to have two employers. In the case of child care, this means that all staff would be employed by both the child care center and the PEO. The PEO is the *employer of record* and assumes much of the responsibility and liability for the business of employment, such as risk management, human resource management, payroll, and employee tax compliance. The child care center retains responsibility for managing daily operation of the program, including hiring and supervising staff. The PEO and centers share responsibility for employment law compliance. As a co-employer, the PEO provides a complete menu of human resource and benefit management services for worksite employees.

A Union PEO—which is what WRTP is developing—enters into a bargaining agreement with a union and taps into a multi-employer health and welfare fund for benefits. The fund is governed by a Joint Board of Trustees, with representatives from labor and management. PEOs operate in all fifty states, but to date a union PEO has never been established. WRTP's approach is very new. Traditional PEOs do not tend to work in fields like child care or home health care; rather, they look for fields that are not as labor-intensive and have more highly compensated employees.

The WRTP PEO plans to begin with three basic services: 1) payroll processing; 2) benefits administration (e.g., enrolling employees in a Taft-Hartley, multi-employer benefit plan); and 3) human resources management (e.g., reviewing the employment manuals of all participating programs to ensure that they comply with employment law). A graphic, which shows the relationship among various parties in the WRTP PEO, is appended to this summary (see Appendix B).

PEOs typically cover costs with user fees and most PEOs charge between 4-7 percent of employee earnings, depending upon what services they provide. As a nonprofit organization, WRTP is planning to offer services at a cost below industry norms, such as 3.5 percent for employees who enroll in the benefit plans.

Questions and Discussion

After Eric's opening remarks participants were given the opportunity to ask questions and discuss the implications of this new approach. Key questions frame the following summary of this discussion.

Why has the WRTP PEO decided NOT to include family child care providers? Can family child care be included in a PEO?

WRTP has decided not to include family child care in the initial launch of their PEO for two reasons. First, most family child care providers that responded to the WRTP survey indicated that they already had health insurance. Second, the tax and liability issues that surround family child care are not completely clear. WRTP may reconsider this decision after the new entity is launched.

Family child care providers can indeed be included in a PEO. However, they may lose some of the tax benefits they now enjoy as sole proprietors when they enter a co-employment relationship. In other words, if a family child care provider utilized a PEO they would have two employers—themselves, as self-employed individuals, and the PEO. It is unclear how the IRS would rule in this case with regard to allowing all self-employment tax deductions. This issue is discussed in more detail under "Legal and Tax Issues" on page 12 of this report.

Do PEOs exist in the nonprofit sector?

Yes. Nonprofit organizations can elect to utilize a PEO, and many do. To date, it is unknown whether there are any nonprofit PEOs. WRTP many convert to for-profit at some point in order to utilize certain kinds of employer tax credits. Chicago's Employ America is one example of a company that is set up to help nonprofit employers benefit from tax credits that are only available to for-profit employers.

In a Union PEO, who sets the worker's wages?

The centers establish wages; however the PEO could set a minimum standard. In other words, in order to participate in the PEO centers could be required to agree that they will, pay their employees at least the minimum hourly wage established by the PEO. Eric noted that the key thing to understand about a Union PEO, is that it is not traditional trade unionism.

> "We are creating an organization of people who are no longer invisible; who can work together as a group to push for change. Advocacy is a big part of this." -Eric Parker

How is a PEO different from leasing employees?

Employee leasing is similar to a temporary employment agency. A staffing company recruits employees and then places or *leases* them to an entity. A PEO is an ongoing employment relationship. If there is a break in the contract between a PEO and the worksite employer, the employee stays with the worksite; this is *not* the case with employee leasing.

Are there state laws that govern PEOs?

PEOs operate in all fifty states and the District of Columbia. Some states have laws that govern what PEOs can and cannot do, and some states license PEOs. Other states do not have regulations for PEOs. By and large, the laws are quite consistent. The National Association of Professional Employer Organizations (NAPEO) may be able to identify laws in a particular state (see http://www.NAPEO.org). There are also national PEOs in the commercial sector, although they probably create smaller, regional subsidiary companies. It is, however, possible to establish a national PEO.

Potential Options: Services Provided by a PEO

After clarifying questions, the discussion turned to an exploration of the services that a PEO designed for the ECE industry could provide. Louise Stoney, Co-Founder of the Alliance for Early Childhood Finance, gave an overview of the kinds of support services that could benefit the ECE industry. As very small (and often economically fragile) businesses, Louise noted that ECE providers could benefit from a host of shared service strategies. She shared a graphic that described her vision of what a PEO could offer, as well as a list of possible shared services that could be provided—or facilitated—by a PEO (see Appendix C).

> As very small, and often economically fragile businesses, ECE providers could benefit from a host of shared service strategies.

Participants worked in small groups to react to and expand upon Louise's list. The result was an extensive list of potential services, which is summarized below.

Administrative and Financial Services

- Financial Planning (for member agencies/providers)
- Billing and Fee Collection (for member agencies; including billing government for child care subsidies and CACFP as well as billing private, fee paying families)
- Financing Capitol Improvements or Working Capital (e.g. accessing private bank loans for renovation/expansion or lines of credit)
- Floating Bonds on the Public Market
- Collectively Bidding on Grants
- Managing Grants
- Tax Preparation Assistance (for member agencies/providers)
- Audit Assistance
- Management Consulting
- Marketing Assistance (for member agencies/providers)
- Centralized Enrollment (for member agencies/providers)
- Assistance with Cash Flow Issues (e.g. helping set up debit/credit card capacity or direct bank account transfer)
- Collective Management/Shared Administration (e.g. shared staff for overall management among multiple sites)

Human Resources

- Human Resource Management
- Professional Development, Mentoring and Education Consulting for staff
- Staffing Services (recruiting and screening, substitute pool, temporary staff)

- Educational Scholarships for staff
- Life Long Learning Accounts (matched savings accounts) for staff
- Shared Quality Support Staff (Health, Mental Health, Social Services, Family Support)

Benefits

- Health Insurance
- Retirement Options—pension plans, IRAs, 401Ks
- Dental Insurance
- Disability Insurance
- Flexible Spending Accounts/ Dependent Care Assistance Plans
- Unemployment and Worker Compensation
- Wage Subsidies
- Family Leave Benefits

Budgeting and financial planning for member agencies should be a key issue for a PEO that serves the early care and education industry. If member agencies are financially troubled, are not fully enrolled, or do not collect their fees in full and on time, they could jeopardize the success of the whole PEO.

Legal Services

- Risk Management
- Retirement Planning
- Information or Help With Legal Issues
- Wills (for member agencies)

Other Support Services

- Technical Assistance for Quality Assurance (e.g., to meet or move up in a statewide Quality Rating System)
- Bulk Purchasing Pools
- Food Services (shared commercial kitchen or common agreement with catering service)
- Access to Technology (hardware, software, support)
- Advocacy

Questions and Discussion

Participants with deep knowledge of employment law remarked that most of the issues noted above are *not* things that a PEO would typically provide. In fact, most of them could be offered without creating a PEO. Some participants felt that engaging in the many activities included in the brainstormed list would fundamentally change the nature of a PEO.

Others noted that, depending on the state, many of these services and activities are already handled by other entities. Thus, suggesting that a PEO take them on could fuel turf battles.

Our facilitator reminded us that the purpose of this exercise was brainstorming. To this end, participants agreed that the above list should be viewed as a menu of possible services rather than a mandate of what an ECE PEO should do. Additionally, it was agreed that the PEO should work in partnership with other agencies that were already providing many of these services. Another option is to consider phasing in supports as the PEO grows.

After significant discussion of the pros and cons of a comprehensive approach, participants agreed to focus the remainder of the meeting on the three things that a PEO ***must*** do: Payroll, Benefits, and (minimal) Human Resources Administration.

Key issues raised during the discussion include the following:

- Focus groups conducted to explore the feasibility of a PEO in North Carolina indicated that many family child care providers are interested in having someone else manage their billing and fee collection. Thus, if a PEO decides to include family child care this might be a viable service to include. It could also be necessary to establish an employment relationship between the PEO and family provider.

- Many states are moving toward on-line billing for public child care subsidies, so it might make sense to build on this when establishing a centralized, internet-based billing function connected to the PEO.

- Several participants stressed that budgeting and financial planning for member agencies should be a key issue for an ECE PEO. If member agencies are financially troubled, are not fully enrolled, or do not collect their fees in full and on time, they could jeopardize the success of the whole PEO. Thus, some sort of management review might be needed prior to accepting a program or provider into a PEO.

- Some brainstorming groups mentioned issues that are typically provided by others, such as maintaining a provider registry, conducting practitioner training, or offering child care referrals. Several participants raised concerns about turf, and noted the importance of working cooperatively. And all agreed that it is important to think carefully about issues of ownership and trust when deciding how to launch a PEO.

Administrative Structure and Governance of a PEO

Eric began this portion of the meeting by describing the proposed administrative structure for the WRTP early care and education PEO. They plan to create the PEO as a subsidiary company of the WRTP. The PEO will be a nonprofit, Limited Liability Corporation (LLC) with its own management committee, which will be drawn from the WRTP board (which includes executives from a local power company, AT&T, the Veterans Medical Center, and the like) and labor (State AFL-CIO lobbyist, Labor Council, Building and Trades Council, and the like). The management committee will hire a PEO manager.

> Ideally, a PEO should have both a nonprofit arm that allows it to access foundation and grant funds, and a for-profit arm that allows it to syndicate tax credits.

The PEO will take responsibility for:

- Payroll–member agencies will deposit funds into a payroll account and the PEO will cut checks for employees;
- Benefits–the PEO will enter into a bargaining agreement with the union so that they can access Taft-Hartley health insurance and retirement benefits; and

- Human Resource Management–the PEO will review all member agencies personnel policies to ensure that they meet legal requirements.

The PEO will work in partnership with the Wisconsin Early Childhood Association, which will provide a host of additional support services, including (but not limited to):

- Educational Scholarships;
- Staff Training;
- Program Technical Assistance (on quality improvement issues);
- Wage Subsidies;
- Child and Adult Care and Food Program (CACFP) Management;
- Maintaining the WI Provider Registry (for staff educational qualifications and professional development); and
- Referral Services (for families).

Questions and Discussion

In his remarks, Eric Parker made it clear that the structure he described for the WRTP PEO is not the only way to form a PEO. There are many options. A PEO can be a nonprofit or for-profit entity. Ideally, a PEO should have both options—a nonprofit arm that allows it to access foundation and grant funds, and a for-profit arm that allows it to syndicate tax credits.

Kirsten S. Moy, Director of the Economic Opportunities Program at the Aspen Institute, shared the following lessons from collaborative structures in other industries:

- To be effective, collaborative structures should be operating entities (this is very different from a trade association).

- A cooperative administrative structure, that supports shared ownership, is ideal.

- Success is most likely if the organization leads with a "killer application", something that is very obviously needed by the field and not a perceived threat.

Many participants found these remarks salient, noting that trust was a major issue and that health insurance was most likely the "killer application" for the ECE industry.

To make a PEO economically viable, it needs at least 800 workers—or about 50 to 100 child care centers.

Are there key economies of scale that should be considered?
Yes. PEO expenses are based on a percentage of payroll. To make a PEO economically viable, it needs at least 800 workers (or about 50 to 100 child care centers).

Must the PEO be union-affiliated in order to access affordable health insurance?
There are apparently no other union PEOs yet. However, participants that had researched available and affordable health insurance felt that this was the case. Apparently, it is extremely difficult to find comparable prices and flexibility available through a Taft-Hartley benefits plan.

How will the field of ECE feel about a union-affiliated PEO?
Some argued that the benefits clearly outweigh the disadvantages, and that the collective power of a union can be enormously helpful in moving the field forward. Others raised concerns about the unions taking control of public policy issues. What happens if a provider association or statewide ECE advocacy group and the union have opposing views on a policy issue? Who controls the agenda then?

To whom is a PEO accountable?
A PEO is accountable to its board of directors and the clients it serves. Legally, a union could never control the seats on a PEO board. Thus, PEO accountability to a union would be limited to bargaining in good faith and observing the collective bargaining agreement that is jointly negotiated. Optimally, a broader partnership agreement would exist that includes partnering on workforce development and on a policy agenda. This type of agreement could be jointly written by the PEO and the union.

After much discussion, the group came to the conclusion that, while many administrative/governance options can work, the following principles are key:

- The entity sponsoring the PEO must be financially stable, and capable of effectively administering payroll, benefits, human resources and generally managing large sums of money.

- The entity sponsoring the PEO needs to be big enough to reach economies of scale. Ideally, that means it is able to generate administrative costs of less than 4 percent of payroll through user fees, third party funding, or other sources willing to help underwrite some administrative costs.

- The PEO should consider having both a proprietary and nonprofit arm, to maximize funding opportunities.

- Trust is key. Entities engaged in launching the PEO should explore cooperative or collaborative approaches to administration.

- Access to affordable health care is a key reason for establishing a PEO. Thus, an effective PEO either needs to be able to access a Taft-Hartley plan or an insurance plan with comparable costs and benefits.

> It is hard to beat the price and flexibility available through a multi-employer, Taft-Hartley benefits plan.

Participants had many questions about Taft-Hartley benefits. To help address these concerns, Carol Regan from the Paraprofessional Healthcare Institute and Gail Lopez-Henriquez, general counsel to the National Union of Hospital and Health Care Employees, gave a brief primer on the Taft-Hartley law and jointly administered health and welfare funds. Advantages of a Taft-Hartley fund include:

- **Size**–multi-employer plans include large pool of participants, which can reduce rates by spreading risk and reducing administrative costs per person.

- **Power**–a large pool of union members creates bargaining power, which can potentially be used to negotiate lower rates.

- **Flexibility**–Taft-Hartley benefit plans can be structured to suit a particular set of employers and employees, instead of the typical situation where an employer must choose from a limited set of already existing benefit packages.

- **No preexisting condition clauses or eligibility limitation**–Taft-Harley benefit plans are open to all employees, regardless of age, preexisting conditions or wages; premiums are based on the average wage over a two month period, so employees with fluctuating income won't lose benefits just because their income drops or increases.

- **Portability**–in a multi-employer plan, the benefits are tied to the employee not the employer; if the employee moves to another employer in the PEO, the benefits go with them.

A copy of the full memo on Taft-Hartley benefit plans is included in Appendix D.

Legal and Tax Issues

Discussion of legal and tax issues began with a presentation by Tom Copeland, Director of the Redleaf National Institute. Tom's presentation focused on family child care providers. Key points relevant to tax issues include the following.

- 90 percent of all family child care providers are self-employed. And less than 10 percent of them have employees. Most are sole proprietors.

- The tax consequences for a family child care provider are the same regardless of regulatory requirements. Thus, providers who are legally exempt from regulation (including paid family, friends, and neighbors) have the same tax status as those who are regulated.

> The legal and tax status of family child care providers who participate in a PEO is not clear, and may vary by state.

- A PEO puts family child care providers into a new category. It is not clear that they can maintain their self-employed tax status if they are in a co-employment situation. Self-employed family child care providers currently have a number of tax benefits that they are likely to lose if they become employees (e.g., the ability to deduct a portion of the cost of their home).

- Tom ran a hypothetical scenario and found that a family child care provider who earns \$20,000 in gross income and \$4,000 in CACFP payments, and who has a spouse earning \$50,000, will pay approximately \$1,000 more in taxes if they become an employee.

The legal status of a family child care provider in a co-employment situation is unknown. It is theoretically possible for a provider to be considered self-employed by the IRS (because they pass the IRS tests of behavior control, financial control, relationship, etc.) and still be considered a co-employee for the purposes of PEO membership. Additionally, a state tax department could rule that family child care providers are considered employees for state tax purposes (i.e., unemployment and workers compensation). And it is also possible to be self-employed and part of a union.

In short, many things are possible but the legal and tax status of family child care providers who participate in a PEO is certainly not clear.

Questions and Discussion

The discussion during this portion of the meeting was rich and varied. Tom was careful to point out that several entities are involved in these decisions—the IRS, as well as the state and federal government.

Can interpretations of family child care status vary by state?
Yes. In order to clarify the definition of an employer (in the case of a family child care provider who is part of a PEO but wants to maintain self-employment status) it is necessary to contact the IRS in the state where the PEO will be established. Written documentation of the discussion and the interpretation should be requested. The Federal definition can be different than the state definition; a family child care provider could be considered self-employed by IRS and be considered an employee by the state.

What are the costs and benefits of employee status for family child care providers? Some participants argued that if a provider gains access to workers' compensation, health and disability insurance, retirement benefits, and other benefits, that they would be worth at least $1,000 a year. Others felt that the trade-off would not be worth it, and stressed that most family child care providers want to remain self-employed.

How representative is the example Tom used? Do most family child care providers have a spouse who earns $50,000 a year?
There are family child care providers at all levels of income and family status. Indeed, for some providers becoming an employee would not result in lost tax deductions and could have a positive financial impact.

Fiscal Issues

Participants returned to small groups to brainstorm possible resources for financing the start-up costs for a PEO, ongoing administration, and employee benefits. Each group was asked to report out its best ideas. Responses are summarized below.

> State child care administrators have a special interest in clarifying the employment status of family child care providers. If a PEO could help accomplish this goal, states might be willing to help fund the entity and/or the insurance costs.

- **State General Funds**–One group believed that states would be willing to invest state general funds in starting and maintaining a PEO, as well as subsidizing the cost of health insurance for participating child care providers *if the PEO established a clear employment relationship for home-based providers*. Apparently, many states have been sued and/or have had unfavorable IRS rulings that indicate that they are the employer when they enter into agreements with family child care providers to serve subsidized children. States are deeply concerned about this liability risk, and would welcome clarity regarding the employee/employer relationship in family child care. A PEO relationship could be used to clarify this issue. Family child care providers could be made employees of the PEO, and the potential tax losses to the provider could be offset by very affordable benefits because the state would subsidize the benefits through an annual appropriation.

- **State and Federal Health Insurance Funds**–The first group also suggested approaching the private health insurance companies that offer government-subsidized State Children's Health Insurance Program (SCHIP) insurance to see if they would be willing to create an affordable health insurance plan for child care providers.

- **Broaden Eligibility for SCHIP**–Similar to the recommendation above, this group suggested expanding the government subsidized child health insurance plan to include the child care industry.

- **Partner with the Paraprofessional Health Institute**–This group has developed insurance packages for long-term care workers, and might be helpful in negotiating similar products for the child care industry.

- **Tap Multiple Partners for Start-Up and "Bridge" Funding**–One group felt that start-up—and short-term bridge funding to support the PEO until fees were high enough to cover costs—could be secured from a host of sources, including Unions, Foundations, Blue Cross/Blue Shield surpluses, Community Development Financial Institutions, Medicaid, Tobacco Settlement funds, and others. Longer-term, sustainability funds are more difficult to secure, but might be assisted by negotiating lower rates from Blue Cross/Blue Shield.

Next Steps

The meeting ended with a brief discussion of next steps. All agreed that the learning curve had been significant. Facilitator Sarah LeMoine summarized the key principles gleaned from the meeting (see the following text box).

Developing a PEO for the Early Care and Education Industry
Key Principles

- ☆ A PEO model must connect existing infrastructure and complement, not duplicate, existing services.
- ☆ Ownership/buy-in is essential. PEO planning teams should explore collaborative structures.
- ☆ A PEO administrative agency needs to be entrepreneurial, financially stable, and big enough to reach some economies of scale.
- ☆ Think carefully about to whom (what groups) a PEO is accountable. Make this authority clear, especially in terms of advocacy.
- ☆ A PEO that intends to serve the early care and education industry needs to have a clear link/connection to a trusted organization or group of leaders. This relationship should be in place—and be visible—prior to launching the PEO.
- ☆ A PEO model should consider both immediate and long term goals. It is possible to start with a limited scope and grow to assume more responsibilities.

Participants agreed on several next steps, including the following four activities:

1. **Launch a pilot early care and education PEO**.
   Participants from Wisconsin and Pennsylvania agreed that their next step was to "roll up their sleeves" and try launching the organization. Wisconsin is ready to move forward. Pennsylvania still has more concrete planning to do, but the vision is clear.

2. **Gather evaluative data during the pilot project, and use these data to inform future development.**
   Focus groups are a helpful start, but it is not possible to learn what providers will really do until a PEO is launched. Similarly, actuarial data will provide helpful information on rates. It was also noted that it may be important to hold a second round of focus groups in Wisconsin or Pennsylvania after initial rates are established, to gage the response and impact.

3. **Continue to research affordable health insurance options.**
   This research should include employer/union sponsored Taft-Harley Funds that indicate potential as well as potential opportunities with insurance companies that currently provide state child health insurance plans (SCHIP).

4. **Continue to focus on strategies that enable shared service strategies for the early care and education industry.**
   Learn more about the Aspen Institute collaborative structures work via information provided by Kristin Moy. Launch another meeting focused on ways—outside of or in partnership with—the PEO structure to support collaborative ventures in early care and education program management.

Appendix A: Participant List

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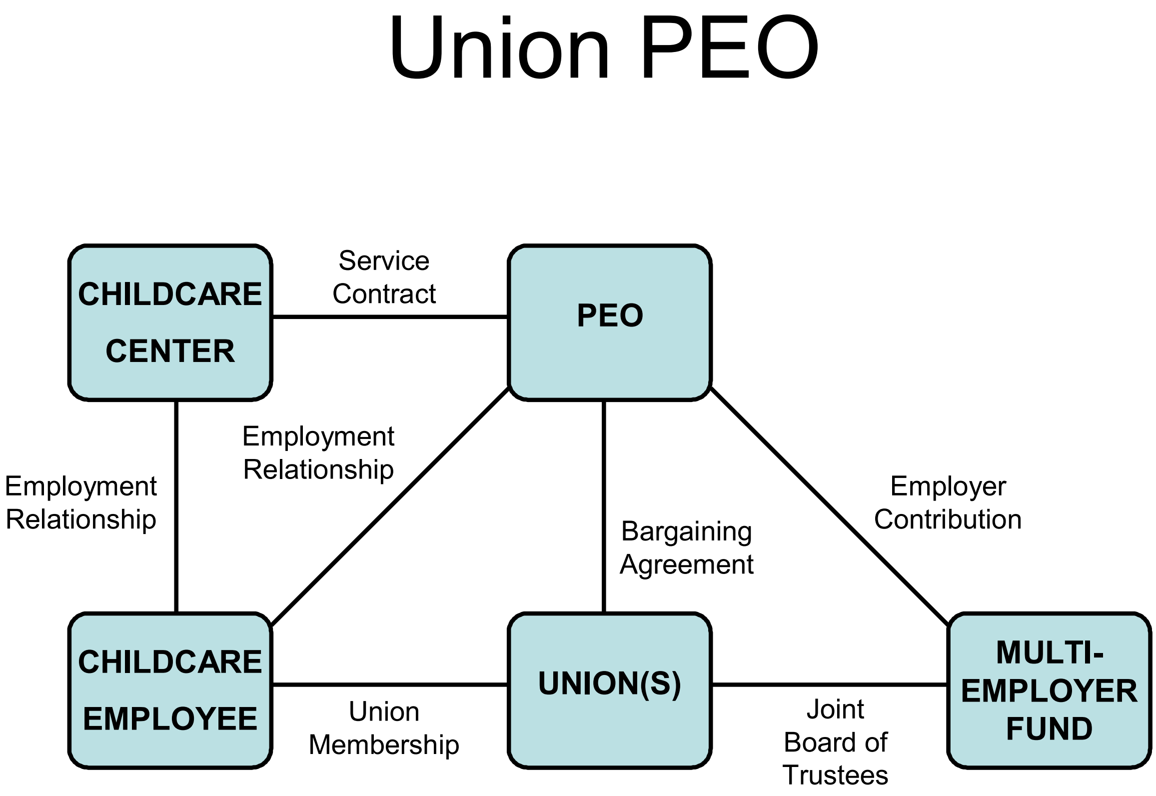
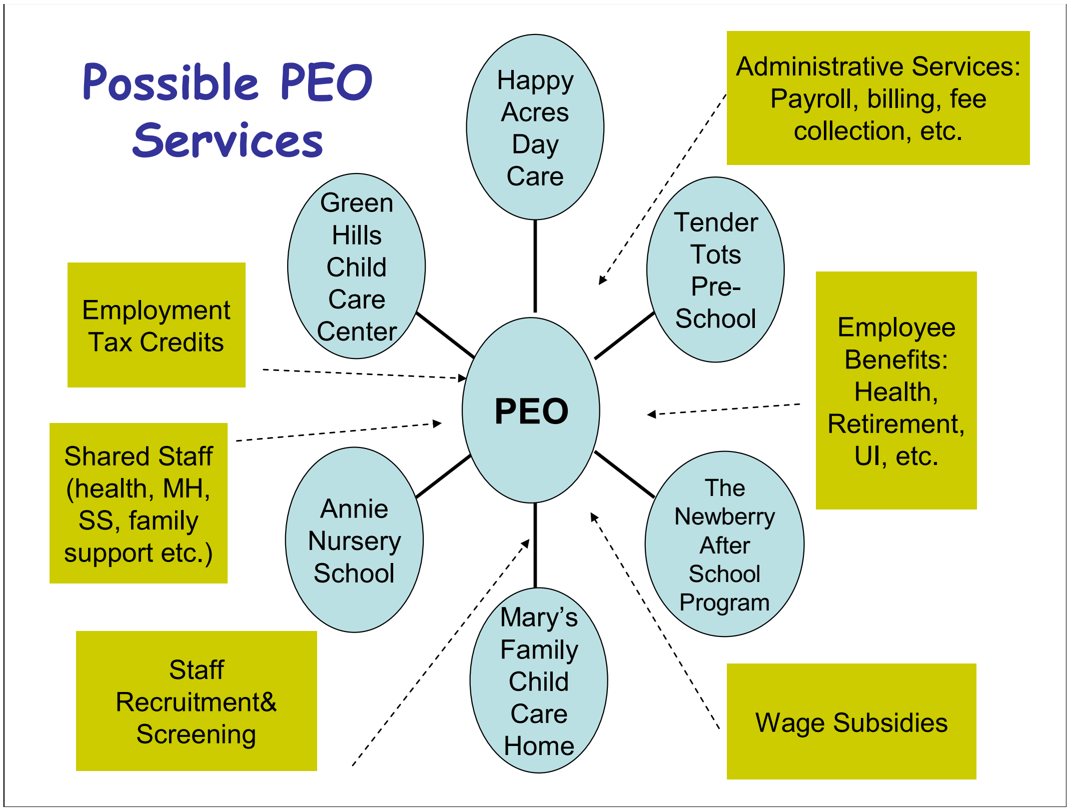
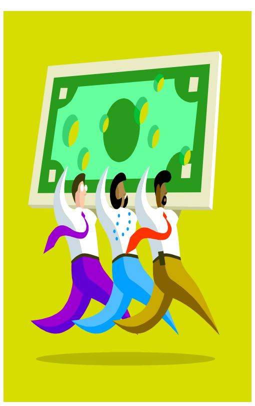
Appendix B: PEO Model by Eric Parker



Appendix C: Shared Services Model by Louise Stoney





Shared Services

- Purchasing Pools
- Staffing Services
- Food Services
- Shared Quality Support Staff
- Marketing
- Contract Negotiation
- Human Resources
- Shared Administration
- Billing and Fee Collection

Appendix D: Health Insurance and PEOs

Providing Coverage through a Taft-Hartley Fund

Multiemployer health and welfare funds[1] or other jointly administered health funds create both a risk pooling mechanism and an administrative structure that could deliver health insurance benefits to child care workers. Multiemployer funds in the private sector cover employees of multiple employers in the same industry (often small employers) who have signed a collective bargaining agreement (CBA) with the same local, national, or international union. These types of funds are often found in industries where employees move in and out of the workforce or change employers regularly, although they usually remain employed in the same industry. This type of group health arrangement are found in a range of industry sectors, from janitorial, nursing home and home care to building and construction, food and food service, entertainment, and trucking.

A multiemployer fund operates a single risk pool that covers all of the eligible employees of all contributing employers. The employees are not medically underwritten before they can enroll for health coverage but must meet the fund's eligibility criteria for coverage. Generally, the CBA will require the employer to make a "cents-per-hour" contribution on behalf of each employee based on the number of hours the employee has worked for that employer during the reporting period (i.e., month, quarter, etc.).

Under federal labor law (the Taft-Hartley Act), a multiemployer fund must be governed by a joint board of trustees, with equal representation of labor and management.[2] In addition, multiemployer funds are generally covered by the Employee Retirement Income Security Act of 1974 (ERISA).[3] Although the Taft-Hartley Act does not apply to public employees,[4] if a state wanted to cover child care workers under an existing multiemployer fund, an employer

[1] The term "fund" in this context is used interchangeably with the term "group health plan" or "plan." "Fund" simply distinguishes this type of arrangement for providing employer-sponsored health benefits from an unfunded arrangement that an individual employer might use to provide health benefits. The Employee Retirement Income Security Act of 1974 (ERISA) establishes minimum funding requirements for employers based on promised benefits and requires that those employer contributions be placed in trust. Unlike private-sector pension plans that are required under to be "funded," ERISA does not require health plans to be funded in advance of the payment of benefits. Consequently, when a private-sector employer establishes a group health plan for its employees, it often does not make contributions to a trust from which claims will be paid. Some employers establish "insured group health plans" and make contributions to an insurer or health maintenance organization (HMO), which bears the risk of paying claims. Most employers, however, "self-insure" their group health plans—in other words, they retain the risk of paying claims themselves and pay them from the general assets of the employer, not from a separate trust. In contrast, employers that provides health benefits to their employees through jointly administered trusts (multiemployer health and welfare funds) make contributions to a trust or "fund" from which claims are paid.

[2] The Taft-Hartley Act is an amendment to the National Labor Relations Act, 29 USC §§141-197, enacted in 1947.

[3] Multiemployer funds established or maintained by private-sector employers, are covered under ERISA. Whether the fund remains an ERISA plan is significant, because ERISA §514, which relates to preemption of state law, exempts ERISA funds from direct state regulation of health plans. Policymakers and advocates who are considering this approach should consult their legal advisors on this issue.

[4] 29 USC §152(2).

of record such as a public authority could simply be treated as another contributing employer.

If the workers are employed by a public authority, the public authority could serve as the management representative itself or delegate a representative. If the workers are employed by private agencies, an association of those agencies could be created (if one does not exist) to serve or designate someone to serve as the management representative.

Appendix E: Wisconsin Feasibility Study

Preliminary Analysis: Feasibility of Co-Employment Model for Wisconsin Child Care Workforce (2005, June). Prepared for the Wisconsin Early Childhood Association and Wisconsin Regional Training Partnership. Prepared by: The ICA Group, Brookline, Massachusetts.

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